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STATE, OIR, RECOMMENDATIONS FOR CHANGES IN 11 JUNE DRAFT OF WIE-32

Page 3: Add a sixth paragraph to the Conclusions:

6. Should Chinese operations in Korea continue indefinitely at present levels, a number of serious strains would eventually be expected, including:

a. The maintenance within China of increasingly larger policing and tax collecting organizations whose operations probably would arouse greater popular hostility;

b. the lessening of Chinese Communist prestige and maneuverability both at home and abroad due to the regime's failure in part because of shortages of trained manpower and economic resources, to carry out its programs of social change and economic reconstruction; and

c. a concomitant increase in Chinese Communist pressure upon the USSR to support a more decisive resolution of the Korean conflict.

Review of this document by CIA has determined that

☒ CIA has no objection to declass
☐ It contains information of CIA

Interest that must remain
classified at TS S O

Authority: HR 70-2

☐ It contains nothing of CIA Interest

Date June 81 Reviewer LS14
At that time, reports of

Page 8, paragraph 10, lines 6 - 8:

.....
a temporary six-week shutdown of all cotton textile factories in China
cotton mill shutdowns in Canton and Shanghai were carried in the

press. ...

State Dept. declassification & release instructions on file

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Page 9, paragraph 11:

11. The Korean war is likely to increase the economic difficulties of the government during the next year. Western trade controls are reducing supplies of machinery and raw materials necessary for ~~current~~ production and for industrial/rehabilitation. Moreover, the industrial sector of the economy operates virtually on a day-to-day basis both in terms of raw materials and plant and some maintenance, notably raw cotton. Raw material shortages have already developed; become evident.

(add) — These shortages will tend to impede current industrial production and thereby interfere with the exchange of commodities between urban and rural areas. In combination with the fiscal pressures associated with the prosecution of the war, these difficulties will seriously test the government's capacity to contain inflationary pressures and to collect grain from the rural areas without continuously increasing reliance on force.

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Page 9, paragraph 12, last sentence:

. There is
no information available to indicate whether material shipments of commodities
have been furnished by the USSR with or without compensation.

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